

AR07



**Magna  
International  
Inc.**

**Annual  
Report  
1977**





**Magna  
International  
Inc.**

1977 Annual Report of Magna International Inc. and  
Subsidiaries.

Magna International Inc. is a manufacturer of parts  
for the North American automotive industry and of  
sophisticated components for the aerospace and  
defence industries. The Company also fabricates  
industrial and commercial steel structures.  
Over 60% of Magna's sales are exported. Magna  
is a Canadian-owned public company listed on  
the Toronto Stock Exchange.

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**Annual Meeting**

The Annual Meeting will be held at 11:00 a.m. on  
Wednesday, December 7, 1977, in the Huron  
Room, The Sheraton Centre Hotel, 123 Queen St.  
W., Toronto, Ontario.



**Magna  
International  
Inc.**

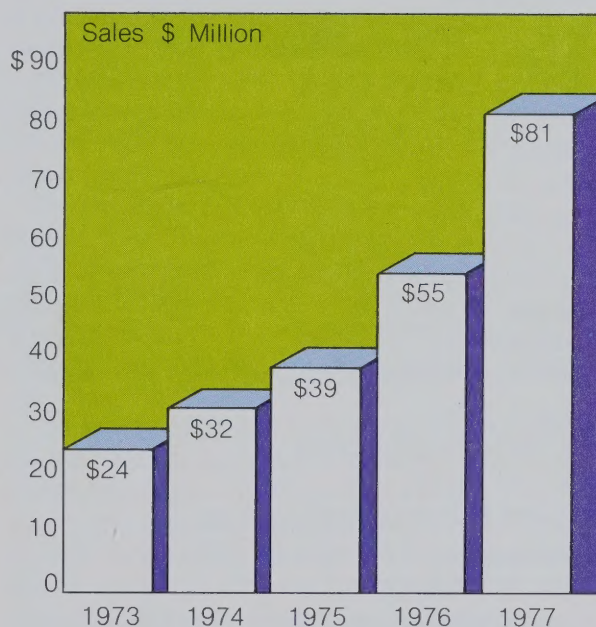
# Financial Highlights

*Dollars in thousands except per share figures*

|                          | 1977            | 1976     |
|--------------------------|-----------------|----------|
| Sales                    | <b>\$80,953</b> | \$55,010 |
| Income from operations   | <b>8,185</b>    | 5,734    |
| Net income               | <b>4,093</b>    | 2,786    |
| Working capital          | <b>7,412</b>    | 4,925    |
| Earnings per share*      |                 |          |
| Class A                  | <b>\$3.63</b>   | \$2.69   |
| Common                   | <b>\$2.90</b>   | \$2.15   |
| Dividends (Annual rate)* |                 |          |
| Class A                  | <b>\$0.52</b>   | —        |
| Common                   | <b>\$0.40</b>   | \$0.40   |
| Preference               | <b>\$6.50</b>   | \$6.50   |

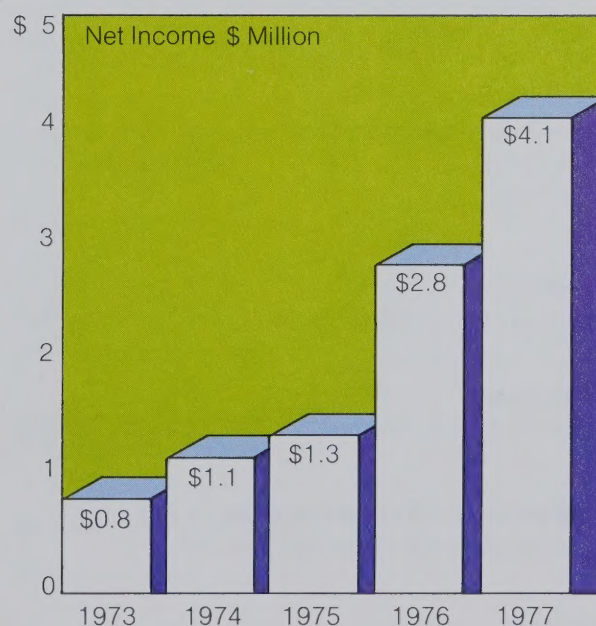
\*See note 2 of the Consolidated Financial Statements

## Record of Growth



1

2481  
72



6

841





**Magna  
International  
Inc.**

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**Directors:**

Anton Czapka  
Paul B. Helliwell  
Helmut Hofmann  
Murray G. Kingsburgh, C.A.  
J. Alex Langford, Q.C.  
Burton V. Pabst  
William S. Storey  
Frank Stronach

**Officers:**

Frank Stronach,  
Chairman of the Board and Chief Executive Officer  
Burton V. Pabst,  
Vice Chairman of the Board  
Helmut Hofmann,  
President & Chief Operating Officer  
Anton Czapka,  
Senior Vice President  
Murray G. Kingsburgh, C.A.,  
Vice President Finance and Secretary  
Robert M. Jones,  
Vice President Sales and Marketing (Automotive)  
James N. Renner, P. Eng.,  
Vice President, Engineering  
D. Robin Sloan,  
Vice President

**Auditors:**

Clarkson, Gordon & Co., Toronto

**Solicitors:**

Miller, Thomson, Sedgewick, Lewis & Healy, Toronto

**Registrars and Transfer Agents:**

The Canada Trust Company, Toronto

**Banker:**

The Bank of Nova Scotia, Toronto

**Head Office:**

355 Wildcat Road, Downsview, Ontario. M3J 2S3



*Mr. Frank Stronach*



*Mr. Helmut Hofmann*



# Report to Shareholders

Magna had record sales and earnings for the year ended July 31st, 1977. Sales rose to \$81 million from \$55 million, an increase of 47%. Net income was \$4.1 million compared with \$2.8 million last year. Earnings per share, after adjusting for the capital reorganization, were \$3.63 vs. \$2.69 for the Class A shares, and \$2.90 vs. \$2.15 in 1976 for the Common shares. This is the sixth consecutive year of record sales and earnings gains for the Company.

All operations contributed to this strong performance. Our Automotive Division, which accounts for over 70% of total sales, had excellent sales and operating results. This was due to a buoyant North American industry and to our ability to continue broadening our penetration into this highly specialized market. In our Industrial Division, the Aerospace/Defence Group benefited from increased levels of government defence spending, while the Structural Steel Group had a satisfactory year despite soft construction markets across the country.

Since 1972 we have invested over \$15 million in capital expenditures to broaden our manufacturing base and marketing operations where the need was clearly defined and where a satisfactory financial return could be attained. In fiscal 1977 we continued to expand our facilities by bringing four new manufacturing plants on stream—two in the Automotive Division and two in the Industrial Division. In 1978 we plan to spend a further \$10 million expanding our business.

On March 10, 1977 Magna acquired a majority interest in Hermes Electronics Ltd. of Dartmouth, Nova Scotia. Hermes is a manufacturer of sophisticated sensing devices used by the oil and gas and defence industries. We expect that Hermes' extensive research and manufacturing skills will add significantly to the Company's technological base.

Research and Development remains a Magna priority. The results of our experimental project to extract oil from the Athabaska tar sands look promising and justify the further development of this project. We are presently exploring the feasibility of expanding the project on a joint venture basis.

During the year we made several changes which have strengthened our senior management team. Mr. Anton Czapka was appointed to the newly-created position of Senior Vice President, a

post which reflects a broadening of his corporate responsibilities; and Mr. Robin Sloan was appointed a Vice President of Magna, with additional responsibilities at the corporate level.

On October 24, 1977 Mr. Roy Kennedy, one of our valued Directors, resigned for personal reasons. Mr. Kennedy made a significant contribution to the growth of the Company.

To prepare for future growth the authorized capital of the Company was increased January 11, 1977 by an additional 4,000,000 Class A shares. Magna's authorized capital now consists of 5,000,000 Class A shares, 1,000,000 Common shares, and 8,900 6½% Preference shares with a par value of \$100 each.

We are confident that 1978 will be a good year for Magna. The backlog of automotive business is again ahead of last year. The move by the major automotive manufacturers to produce smaller, more fuel-efficient vehicles presents Magna with excellent growth prospects. We have the tooling skills, manufacturing base, and proven reputation as a major supplier of quality parts to the industry. We are confident, too, that our Industrial Division will make a growing contribution to our business as the Canadian economy strengthens.

On behalf of the Board of Directors we would like to thank all employees of the Company for making 1977 a record year.

For the Board of Directors



Frank Stronach

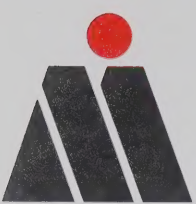
Chairman of the Board, and  
Chief Executive Officer.



Helmut Hofmann

President, and  
Chief Operating Officer.

October 27, 1977



Magna  
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Inc.

# Philosophy and Operating Policies

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Our success as a company is dependent upon the success of our people—management and employees. Magna has created a unique organizational structure to ensure that there is an effective working relationship between management and employees. This structure consists of a network of small manufacturing plants or units serving specific markets. Each plant functions as a separate profit centre under the direction of a plant manager. Management and employees share in the profits of the operation. Individual plants are responsible for developing their own technical skill, tooling and manufacturing capacity. In this way, the benefits of small size—an entrepreneurial spirit and strong management-employee relationships—are fostered throughout the organization.

Magna's corporate office has the following responsibilities:

- Long-range planning designed to allocate resources where they will achieve a high return on investment.
- Controls to ensure that financial resources are used efficiently.
- Providing engineering, tooling and R & D assistance, and ensuring that effective safety conditions are maintained throughout the organization.
- Giving marketing and sales help where market conditions—such as in the automotive industry—dictate the need for close co-ordination between head office and plant.

### Research and Development

It is a company policy to allocate approximately 7% of before-tax profits for special projects. These funds are provided as operating expenses and are not capitalized.

### Employee Equity Participation

Magna shares the benefits of equity ownership with its employees. Each year a portion of the profits is used to purchase shares of the Company for the benefit of employees.

### Dividends

It is Magna's policy to pay dividends to shareholders representing approximately one-fifth of the Company's profits, subject to the anti-inflation guidelines of the Federal Government.



# Automotive Division

## Original Equipment Group

The Group manufactures quality O.E.M. parts for automobiles, trucks and agricultural equipment. We are an accredited supplier to the four major North American automobile manufacturers, having demonstrated our ability to meet their exacting standards for product quality, price and delivery.

Examples of O.E.M. parts produced by Magna are: pulleys, decorative trim, accessories for catalytic converter systems, gas tank parts, bumper guards, tractor parts, lawn mower decks, and cultivator components for farm implements.

O.E.M. business is performed by contract between Magna and the automobile manufacturer. Under these contracts, Magna is compensated for all tooling and special machinery which, given the substantial lead time in new car production, gives an element of predictability to O.E.M. sales and profits.

## After-Market Group

In 1972 the Company expanded its automotive operations to include the manufacture and distribution of parts for the automotive after-market. Today, we produce numerous different replacement parts, among which are mufflers, air filters, electric motors, headlamp assemblies and tailpipes.

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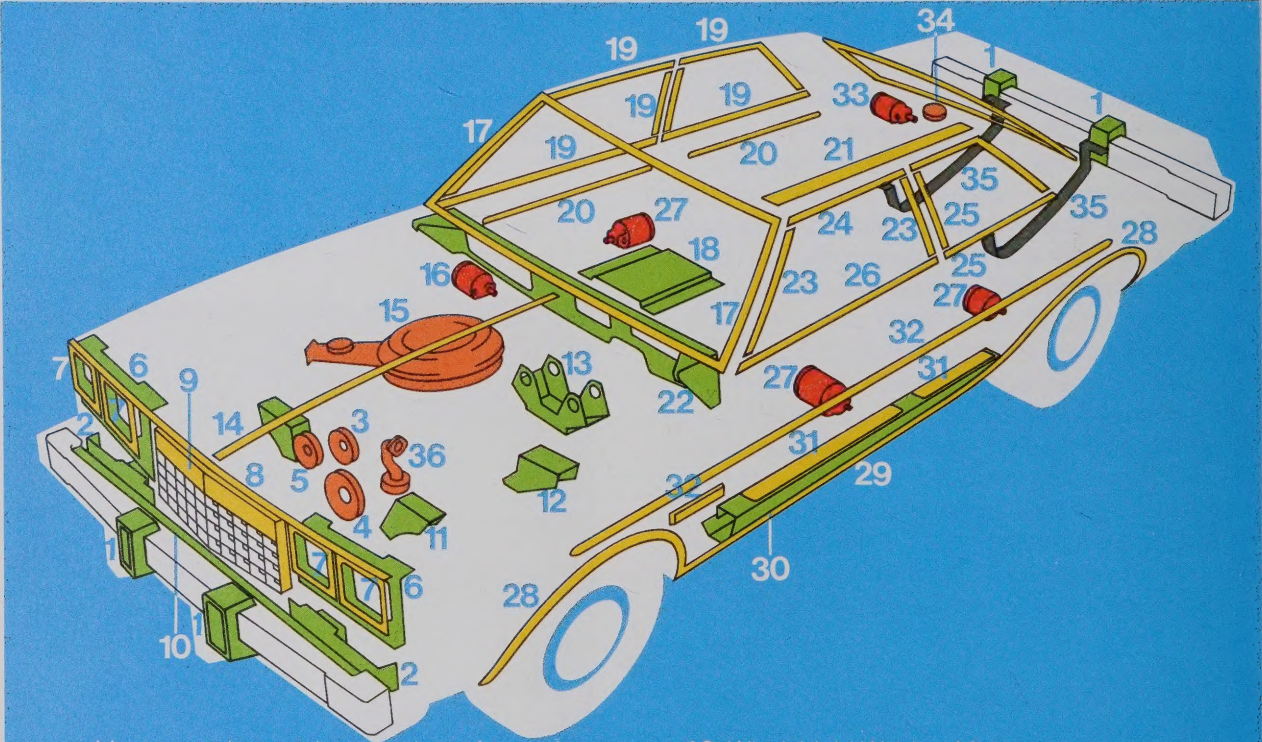
*Housings for electric motors being stamped on a 300-ton transfer press.*





**Magna  
International  
Inc.**

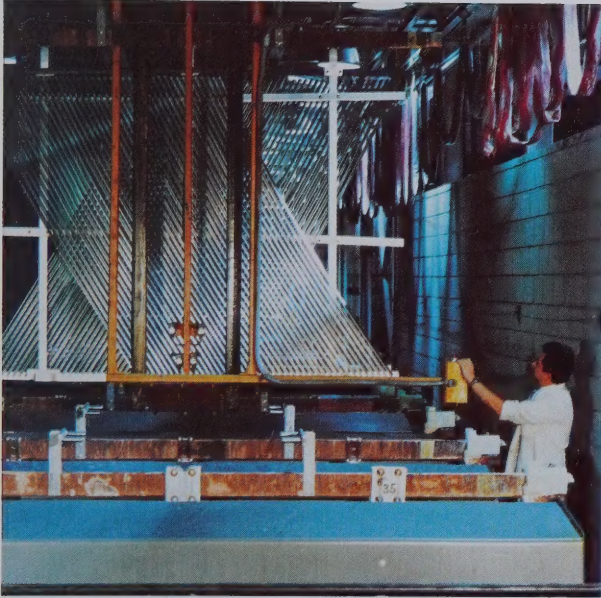
**6**



Magna produces a large variety of parts for passenger cars for both the original equipment and replacement markets. This illustration shows 36 different automotive parts manufactured by Magna.

- |                                     |                                  |
|-------------------------------------|----------------------------------|
| 1. Bumper Guards                    | 16. Windshield Washer Motor      |
| 2. Bumper Reinforcements            | 17. Windshield Mouldings         |
| 3. Power Steering Pulley            | 18. Catalytic Converter Shield   |
| 4. Crankshaft Pulley                | 19. Interior Garnish Mouldings   |
| 5. Alternator Pulley                | 20. Interior Door Mouldings      |
| 6. Grille Reinforcement             | 21. Headliner Retainer           |
| 7. Headlamp Retainer                | 22. Instrument Panel Support     |
| 8. Hood Moulding                    | 23. Exterior Window Mouldings    |
| 9. Grille Moulding                  | 24. Drain Trough Moulding        |
| 10. Stone (Gravel) Deflector        | 25. Opera Window Mouldings       |
| 11. Canister Support                | 26. Door Belt Moulding           |
| 12. Motor Mount Bracket             | 27. Power Window Lift Motor      |
| 13. Transmission Support Bracket    | 28. Wheel House Opening Moulding |
| 14. Centre Hood Moulding            | 29. Rocker Panel Moulding        |
| 15. Intake Silencer and Air Cleaner | 30. Rocker Panel                 |
|                                     | 31. Scuff (Sill) Plate           |
|                                     | 32. Body Side Moulding           |
|                                     | 33. Rear Window Defroster Motor  |
|                                     | 34. Fuel Tank Vent Pipe          |
|                                     | 35. Fuel Tank Strap              |
|                                     | 36. Oil Strainer Assembly        |





Above left:  
Truck mouldings being  
anodized at Magna's new  
anodizing and painting  
plant, Scarborough,  
Ontario.

Above right:  
Packing truck body side  
moulding for delivery to a  
Magna customer.

Opposite:  
Testing armatures for  
electric motors for  
passenger cars.





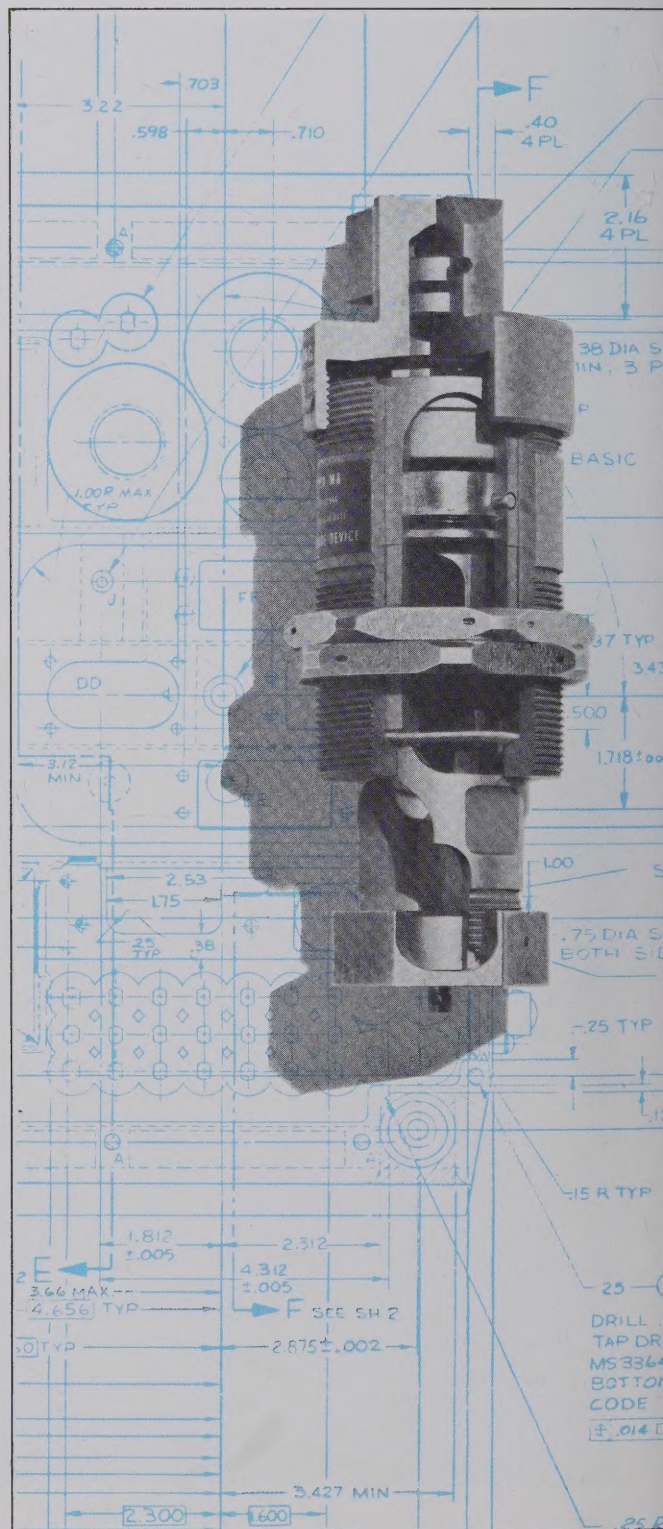
Magna  
International  
Inc.

## Industrial Division

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### Aerospace/Defence Group

This Group manufactures high technology components to exacting standards for the aerospace, aircraft, and defence industries and for the medical diagnostic field. Examples are: panels for air traffic control equipment, gyroscope components, cartridge-activated devices for ejecting pilots from aircraft, and components for blood analysis equipment. The Group has a contract to service military hardware for the Canadian armed forces. The acquisition of Hermes has placed Magna in the fast-growing ocean data technology field, and we are confident that Hermes' extensive research and engineering resources will significantly benefit our operations.



Opposite page:  
Precision machining of a  
dip-brazed platform used  
in a space satellite.



# DETAIL L'L

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**Magna  
International  
Inc.**

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### **Structural Steel Group**

Magna designs and fabricates special structural steel components for industrial and commercial use. Examples are: structural steel framing, conveyor galleries, support structures for electrical and mechanical ducting, machine bases and related structural concepts in steel. Examples of projects undertaken by the Company in 1977 were: lighting standards for the Commonwealth Games Stadium, Edmonton, and structural framing for the Heavy Water Plant, Douglas Point, Ontario.



*Lighting standard profiles  
for the Commonwealth  
Games Stadium in  
Edmonton, Alberta, which  
were fabricated by Magna.*

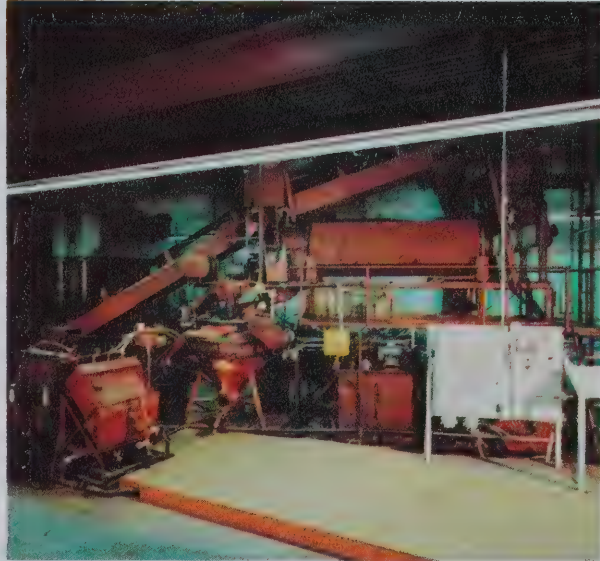
# Research and Development

A key corporate strategy is to apply our extensive engineering and technological skills to new areas of potential growth, and each year Magna allocates approximately 7% of before-tax profits for this purpose in the form of special R & D projects.

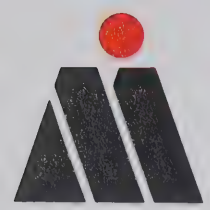
Results produced by our R & D Group have made a significant contribution to Magna's profits. Our success in developing methods of manufacturing automotive pulleys resulted in the bringing into production of two new facilities supplying the automotive industry. Our development of a permanent magnet electric motor with unique multi-speed capacity provides another example of a commercially viable product resulting from our R & D.

The Company, with the financial and technical assistance of the Federal Department of Energy, Mines and Resources, has developed an experimental system of one-ton per hour capacity to extract bitumin—a source of oil—from the Athabaska tar sands, using a unique, cold water process in place of the conventional technique. Test results are promising and we are evaluating the feasibility of expanding this project on a joint venture basis.

*The one-ton-per-hour tar  
sands extraction pilot  
plant currently under  
development at Magna's  
Research & Development  
Laboratories.*

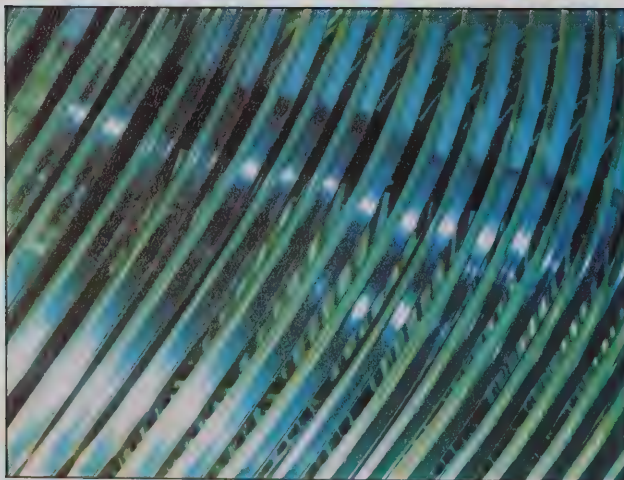






Magna  
International  
Inc.

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# Consolidated Statement of Income and Retained Earnings

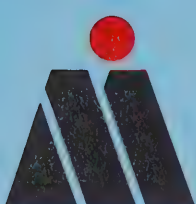
Year ended July 31, 1977 (with comparative figures for 1976)

Dollars in thousands except per share figures

|                                                                                | 1977            | 1976     |
|--------------------------------------------------------------------------------|-----------------|----------|
| <b>Sales</b>                                                                   | <b>\$80,953</b> | \$55,010 |
| <b>Income before the following</b>                                             | <b>\$11,522</b> | \$ 8,109 |
| Deduct:                                                                        |                 |          |
| Depreciation                                                                   | 2,210           | 1,417    |
| Interest on long-term debt (including amortization of debenture issue expense) | 749             | 619      |
| Other interest expense                                                         | 376             | 353      |
| Loss (gain) on retirement of sinking fund debentures                           | 2               | (14)     |
|                                                                                | <b>3,337</b>    | 2,375    |
| <b>Income before income taxes and minority interest</b>                        | <b>8,185</b>    | 5,734    |
| /Income taxes                                                                  | <b>3,588</b>    | 2,701    |
| Income before minority interest                                                | <b>4,597</b>    | 3,033    |
| Minority interest                                                              | <b>504</b>      | 247      |
| <b>Net income for the year</b>                                                 | <b>4,093</b>    | 2,786    |
| Retained earnings, beginning of year                                           | <b>6,857</b>    | 4,310    |
|                                                                                | <b>10,950</b>   | 7,096    |
| Deduct dividends:                                                              |                 |          |
| Preference shares                                                              | 10              | 10       |
| Common shares                                                                  | 241             | 229      |
| Class A Special                                                                | 172             |          |
|                                                                                | <b>423</b>      | 239      |
| Retained earnings, end of year                                                 | <b>\$10,527</b> | \$ 6,857 |
| Earnings per share (note 3):                                                   |                 |          |
| <i>Basic</i>                                                                   |                 |          |
| Class A Special                                                                | <b>\$3.63</b>   | \$2.69   |
| Common                                                                         | <b>\$2.90</b>   | \$2.15   |
| <i>Fully diluted</i>                                                           |                 |          |
| Class A Special                                                                | <b>\$3.53</b>   | \$2.40   |
| Common                                                                         | <b>\$2.82</b>   | \$1.93   |

(See accompanying Notes to Consolidated Financial Statements)





**Magna  
International  
Inc.**

(Incorporated under  
the laws of Ontario)  
and its subsidiary  
companies

# Consolidated Balance Sheet

July 31, 1977 (with comparative figures at July 31, 1976)

Dollars in thousands

**Assets** 1977 1976

**Current assets:**

|                                                                  |          |          |
|------------------------------------------------------------------|----------|----------|
| Accounts receivable (note 5)                                     | \$14,015 | \$ 8,283 |
| Inventories, valued at the lower of cost or net realizable value | 14,395   | 7,484    |
| Prepaid expenses                                                 | 745      | 319      |
| Total current assets                                             | 29,155   | 16,086   |

**Fixed assets, at cost:**

|                               |        |        |
|-------------------------------|--------|--------|
| Land                          | 1,204  | 78     |
| Buildings                     | 4,732  | 943    |
| Machinery and equipment       | 22,626 | 14,181 |
|                               | 28,562 | 15,202 |
| Less accumulated depreciation | 9,175  | 6,262  |
|                               | 19,387 | 8,940  |

**Other assets:**

|                                                                                                                       |       |       |
|-----------------------------------------------------------------------------------------------------------------------|-------|-------|
| Government grants receivable (non-current portion)                                                                    | 207   |       |
| Mortgages receivable                                                                                                  |       | 49    |
| Excess of purchase price of interests in subsidiary<br>companies over fair value of underlying<br>net tangible assets | 2,376 | 2,368 |
| Debenture issue expense, at amortized cost                                                                            | 56    | 31    |
|                                                                                                                       | 2,639 | 2,448 |

**\$51,181** \$27,474

(See accompanying Notes to Consolidated Financial Statements)

On behalf of the Board:

  
Director

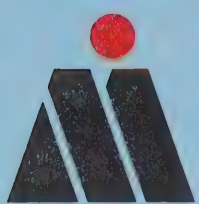
  
Director

Dollars in thousands

| <b>Liabilities</b>                                                                                         | <b>1977</b>     | <b>1976</b> |
|------------------------------------------------------------------------------------------------------------|-----------------|-------------|
| <b>Current Liabilities:</b>                                                                                |                 |             |
| Bank indebtedness (accounts receivable and<br>inventories pledged as security)                             | <b>\$ 7,539</b> | \$ 2,370    |
| Accounts payable and accrued charges                                                                       | <b>9,599</b>    | 5,627       |
| Income and other taxes payable                                                                             | <b>2,733</b>    | 1,611       |
| Excess of progress billings over costs incurred                                                            | <b>171</b>      | 282         |
| Long-term debt due within one year                                                                         | <b>1,701</b>    | 1,271       |
| Total current liabilities                                                                                  | <b>21,743</b>   | 11,161      |
| <b>Deferred income taxes</b>                                                                               | <b>1,971</b>    | 1,284       |
| <b>Deferred income and lease obligations (note 6)</b>                                                      | <b>2,471</b>    | 158         |
| <b>Long-term debt (note 7)</b>                                                                             | <b>7,767</b>    | 4,469       |
| <b>Minority interest in subsidiary companies</b>                                                           | <b>1,823</b>    | 603         |
| <b>Shareholders' equity (notes 2 and 8):</b>                                                               |                 |             |
| Capital stock                                                                                              |                 |             |
| Authorized:                                                                                                |                 |             |
| 8,900 6½% cumulative sinking fund preference shares<br>with a par value of \$100 each, redeemable at \$105 |                 |             |
| 1,000,000 common shares without par value                                                                  |                 |             |
| 5,000,000 Class A Special shares without par value                                                         |                 |             |
| Issued:                                                                                                    |                 |             |
| 1,400 preference shares (1976—1,531 shares)                                                                | <b>140</b>      | 153         |
| 631,464 common shares (1976—580,999 shares)                                                                | <b>1,807</b>    | 2,789       |
| 706,464 Class A Special shares                                                                             | <b>2,932</b>    |             |
| <b>Retained earnings</b>                                                                                   | <b>10,527</b>   | 6,857       |
|                                                                                                            | <b>15,406</b>   | 9,799       |
|                                                                                                            | <b>\$51,181</b> | \$27,474    |

(See accompanying Notes to Consolidated Financial Statements)





Magna  
International  
Inc.

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## Consolidated Statement of Changes in Financial Position

Year Ended July 31, 1977 (with comparative figures for 1976)

Dollars in thousands

1977 1976

### Sources of working capital:

#### From operations

|                                                                                                                                              |          |         |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------|---------|
| Net income for the year                                                                                                                      | \$ 4,093 | \$2,786 |
| Charges to net income which do not reduce working capital, including depreciation, deferred income taxes, amortization and minority interest | 3,449    | 2,385   |
|                                                                                                                                              | 7,542    | 5,171   |
| Notes payable                                                                                                                                | 3,212    | 1,500   |
| Mortgages payable                                                                                                                            | 2,095    |         |
| Common and Class A Special shares issued during the year                                                                                     | 1,950    | 147     |
| Mortgage payments received                                                                                                                   | 49       | 2       |
|                                                                                                                                              | 14,848   | 6,820   |

### Uses of working capital:

|                                                                                                                        |        |       |
|------------------------------------------------------------------------------------------------------------------------|--------|-------|
| Additions to fixed assets                                                                                              | 8,584  | 3,456 |
| Excess of fixed and other assets of subsidiary acquired during year over long-term debt and minority interest (note 4) | 464    |       |
| Decrease in long-term debt non-current portion                                                                         | 2,413  | 1,428 |
| Dividends                                                                                                              | 423    | 239   |
| Redemption of preference shares                                                                                        | 13     | 4     |
|                                                                                                                        | 11,897 | 5,127 |
| Increase in working capital                                                                                            | 2,951  | 1,693 |
| Working capital, beginning of year                                                                                     | 4,925  | 3,232 |
|                                                                                                                        | 7,876  | 4,925 |
| Working capital deficit of subsidiary at date of acquisition (note 4)                                                  | (464)  |       |

### Working capital, end of year

\$ 7,412 \$4,925

(See accompanying Notes to Consolidated Financial Statements)

# Notes to the Consolidated Financial Statements

July 31, 1977

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

The consolidated financial statements include the accounts of Magna International Inc. and its subsidiaries, some of which have a minority interest.

The accounts of the company's U.S. subsidiaries are translated as follows:

- Monetary assets and liabilities—at year-end rate;
- Non-monetary assets and liabilities and depreciation expense—at historic rates;
- Revenues and expenses, other than depreciation—at average exchange rates for the year.

### Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined substantially on a first-in, first-out basis.

Inventory values are as follows: *Dollars in thousands*

|                            | 1977            | 1976           |
|----------------------------|-----------------|----------------|
| Raw materials and supplies | \$ 7,583        | \$2,975        |
| Finished and in process    | 6,812           | 4,509          |
|                            | <b>\$14,395</b> | <b>\$7,484</b> |

### Construction contracts

Profits on contracts in the company's construction division are accounted for under the completed contract method. If it becomes known that a contract in progress will be completed at a loss, full provision for such loss is made in the year it is recognized.

### Depreciation

Depreciation generally is provided on a straight-line basis over the estimated useful lives of assets at annual rates of 5% for buildings and 10% for equipment.

### Excess of purchase price of interest in subsidiary companies over fair value of underlying net tangible assets

For acquisitions which occurred prior to 1974 the value is being carried in the accounts at cost without amortization since, in the view of management, there has been no impairment in such value. For future acquisitions, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, the value will be amortized by charges to earnings over future periods.

### Income taxes

In accordance with generally accepted accounting principles, the company follows the tax allocation method of providing for income taxes. Where appropriate, maximum capital cost allowance is claimed for income tax purposes and a related provision is made for deferred income taxes. Income taxes include a provision for deferred taxes of \$687,000 in 1977 (\$736,400 in 1976).

## 2. STOCK SPLIT

During the year the common shares of the company were split on a share for share basis into one common share and one Class A Special share. Authorized share capital was increased at the same time by the creation of an additional 4,000,000 Class A Special shares.

The Class A Special shares have the following attributes:

- (a) Each Class A share shall participate in dividends and other distributions of retained earnings and other surplus accounts in an amount equal to 125% of the dividend or other distribution payable to each common share.
- (b) The Class A shares are not entitled to a vote except on a resolution to change the attributes of the Class A shares.

In the event that either the Class A Special shares or the common shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

## 3. EARNINGS PER SHARE

Earnings per share for 1976 have been adjusted to reflect the stock split which took place in February 1977 as explained in note 2.

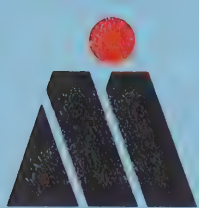
## 4. ACQUISITION OF HERMES ELECTRONICS LTD.

Effective February 1, 1977 the company acquired a 53% interest in Hermes Electronics Ltd. of Dartmouth, Nova Scotia. Concurrently with the acquisition, Hermes' capitalization was reorganized so that its net assets were nil. The company acquired its interest in Hermes for no cash consideration.

A condensed balance sheet of Hermes as at the date of acquisition is as follows: *Dollars in thousands*

|                                                      |              |
|------------------------------------------------------|--------------|
| Current assets                                       | \$6,099      |
| Current liabilities                                  | 6,563        |
| Working capital deficit                              | (464)        |
| Fixed assets (net of accumulated depreciation)       | 3,781        |
| Government grant receivable                          | 168          |
|                                                      | <b>3,485</b> |
| Lease obligation                                     | 2,335        |
| Long-term debt                                       | 433          |
| Minority interest (represented by preference shares) | 717          |
|                                                      | <b>3,485</b> |
| Equity applicable to common shares                   | 0            |





**Magna  
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#### 5. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$1,226,000 (1976—\$68,000) due to a subsidiary company from the Trustees of a Trust established to purchase issued capital stock of the company for resale to the company's deferred profit sharing plan and group registered retirement savings plan and to employees of the company. Subsequent to the year end the balance of the amount owing by the Trustees was reduced to \$570,000.

#### 6. DEFERRED INCOME AND LEASE OBLIGATIONS

Of the total deferred income and lease obligations of \$2,471,000, \$136,000 represents the unamortized excess of proceeds from the sale of certain properties over their net book value which have been leased back from the purchasers under 10 year leases with no option to repurchase. The profits from these real estate transactions are being amortized over the term of the leases.

The balance of the amount, or \$2,335,000, relates to the land now leased by Hermes Electronics Ltd. As part of the purchase transaction referred to in note 4 Hermes sold its land to Industrial Estates Ltd. and leased the land back under a 20 year lease with an option to repurchase after 20 years for \$1. Industrial Estates Ltd. acquired the land in exchange for debt owing it valued for purposes of consolidation at \$2,335,000. The lease calls for minimum annual rental payments of \$193,000.

Since this transaction was basically a method of refinancing amounts owing to Industrial Estates Ltd. the attached financial statements continue to show the land valued at \$389,000 as an asset of the company and the capitalized value of future lease payments, totalling \$2,335,000 as a lease obligation. This obligation will be amortized over the life of the lease and represents the present value of future lease payments discounted at approximately 5½% over 20 years.

At July 31, 1977 the company had other lease commitments expiring between 1978 and 1985 requiring annual rental payments of approximately \$1,000,000 in each of the next five years.

#### 7. LONG-TERM DEBT

(a) An analysis of the company's long-term debt is as follows:

|                                                                                                          | Dollars in thousands |         |
|----------------------------------------------------------------------------------------------------------|----------------------|---------|
|                                                                                                          | 1977                 | 1976    |
| 6½% convertible sinking fund debentures due December 1, 1987                                             | \$ 381               | \$1,256 |
| Capital assistance grants—non-interest bearing due 1977 to 1980                                          | 169                  | 98      |
| Mortgages payable (secured by land, buildings and equipment of subsidiary companies)—8% due 1977 to 1993 | 2,549                | 463     |
| Lien notes payable—9½% to 13% due 1977 to 1981 (including \$490,000 notes of subsidiaries)               | 6,369                | 3,923   |
|                                                                                                          | 9,468                | 5,740   |
| Less due within one year                                                                                 | 1,701                | 1,271   |
|                                                                                                          | \$7,767              | \$4,469 |

- (b) The 6½% subordinated, sinking fund debentures, maturing \$75,000 annually with the balance due in 1987, are convertible into common shares at the holders' option on or before December 1, 1977 at the rate of 58.4064 common shares and 58.4064 Class A Special shares for each \$1,000 debenture.
- (c) Required payments during the next five fiscal years are as follows: 1978—\$1,701,000; 1979—\$1,608,000; 1980—\$1,193,000; 1981—\$1,163,000; 1982—\$1,114,000.



## 8. SHAREHOLDERS' EQUITY

### Preference shares

During the year the company purchased for cancellation 131 preference shares for \$11,265. The discount of \$1,835 realized on redemption has been included in contributed surplus.

### Common shares and Class A Special shares

- (a) During the year, as described in note 2, the common shares of the company were split on a share for share basis into one common share and one Class A Special share. Authorized share capital was increased to 1,000,000 common shares and 5,000,000 Class A Special shares.
- (b) At July 31, 1977 a total of 22,254 authorized and unissued Class A Special shares and 22,254 common shares are reserved for the conversion of 6½% sinking fund debentures into common shares and Class A Special shares.
- (c) During the year 75,000 Class A Special shares were issued for cash of \$1,125,000. In addition, 50,465 Class A Special and 50,465 common shares were issued on conversion of \$825,000 of 6½% convertible sinking fund debentures.

### Retained earnings

Retained earnings includes \$13,062 of contributed surplus arising from the redemption of preference shares.

## 9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year remuneration paid to directors and senior officers including certain operational managers of the company totalled \$636,000.

## 10. ANTI-INFLATION LEGISLATION

The company and its Canadian subsidiaries are subject to the Anti-Inflation Legislation enacted by the Government of Canada effective on October 14, 1975 to provide for the restraint of profit margins, prices, employee compensation and dividends.

The compliance reports which are being filed with the Anti-Inflation Board indicate that the company and its Canadian subsidiaries did not earn excess revenue for the year ended July 31, 1977.

Under amendments to the Regulations dividend payments for the compliance year commencing October 14, 1977 are restricted to 25% of consolidated earnings for the year ended July 31, 1977 which equals \$.88 per Class A Special share and \$.70 per common share (calculated on the basis that all the outstanding sinking fund debentures will be converted into common shares prior to the commencement of the third compliance period).

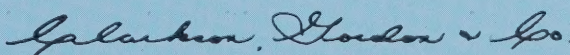
## Auditors' Report

To the Shareholders of Magna International Inc.:

We have examined the consolidated balance sheet of Magna International Inc. and its subsidiaries as at July 31, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1977, the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
October 27, 1977.



Chartered Accountants





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Inc.**

## Five Year Comparative Summary

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*Dollars in thousands except per share figures*

| Year                                              | 1977            | 1976     | 1975     | 1974     | 1973     |
|---------------------------------------------------|-----------------|----------|----------|----------|----------|
| <b>Operations Data</b>                            |                 |          |          |          |          |
| Sales                                             | <b>\$80,953</b> | \$55,010 | \$39,415 | \$31,644 | \$23,759 |
| Income from Operations                            | <b>8,185</b>    | 5,734    | 2,880    | 1,990    | 1,607    |
| Net income for year                               | <b>4,093</b>    | 2,786    | 1,339    | 1,080    | 808      |
| Earnings per share *                              |                 |          |          |          |          |
| CLASS "A"                                         | <b>3.63</b>     | 2.69     | 1.29     | 1.04     | 0.80     |
| COMMON                                            | <b>2.90</b>     | 2.15     | 1.03     | 0.84     | 0.64     |
| Depreciation                                      | <b>2,210</b>    | 1,416    | 1,118    | 890      | 572      |
| Cash flow from operations                         | <b>7,542</b>    | 5,171    | 2,757    | 2,241    | 1,447    |
| Dividends per share<br>(Annual rate)              |                 |          |          |          |          |
| CLASS "A"                                         | <b>0.52</b>     |          |          |          |          |
| COMMON                                            | <b>0.40</b>     | 0.40     | 0.20     | 0.10     | 0.10     |
| <b>Financial Position</b>                         |                 |          |          |          |          |
| Working Capital                                   | <b>7,412</b>    | 4,925    | 3,233    | 2,164    | 1,588    |
| Capital Expenditures                              | <b>8,584</b>    | 3,456    | 2,016    | 2,237    | 1,014    |
| Fixed assets                                      |                 |          |          |          |          |
| (Less accum. depreciation)                        | <b>19,387</b>   | 8,940    | 6,900    | 6,001    | 3,745    |
| Long Term Debt                                    | <b>7,767</b>    | 4,469    | 4,398    | 3,962    | 2,503    |
| Equity relating to Class "A"<br>and Common Shares | <b>15,266</b>   | 9,646    | 6,951    | 5,726    | 4,677    |
| Equity per share *                                |                 |          |          |          |          |
| CLASS "A"                                         | <b>13.53</b>    | 9.34     | 6.75     | 5.58     | 4.55     |
| COMMON                                            | <b>10.83</b>    | 7.47     | 5.40     | 4.46     | 3.64     |

*\*Adjusted for years prior to 1977 to give effect to the creation of the CLASS "A" shares during 1977.  
(See note 2 of the Consolidated Financial Statements).*







